

Bitcoin

Problems at two cryptocurrency exchanges raise security concerns

South Korean bitcoin exchange Youbit files for bankruptcy after cyber attack



The number of shops accepting cryptocurrencies in South Korea has been increasing © EPA
Emma Dunkley in Hong Kong DECEMBER 20, 2017

Two cryptocurrency exchanges were hit by problems on Wednesday, with one forced into bankruptcy following a cyber attack, highlighting the growing regulatory and security concerns as such platforms become increasingly mainstream.

Yapian, which operates the Youbit exchange in South Korea, suspended trading on Tuesday after it was hacked, causing it to lose 17 per cent of its assets, according to a statement from the company.

San Francisco-based Coinbase, one of the world's most popular exchanges for trading digital currencies, said on Wednesday that it was investigating its staff and contractors after a sudden surge in prices for "bitcoin cash", a cryptocurrency using the same technology as bitcoin.

The price of a unit of bitcoin cash rose as much as 33 per cent on Tuesday, according to data from Coinmarketcap.com, and by publication time had climbed a further 41 per cent on Wednesday, to \$3,305 per unit.

The attack on Youbit on Tuesday comes eight months after the exchange experienced a cyber breach in April, according to local media reports. The exchange, which launched in 2013, facilitates the trading of 10 digital currencies, including bitcoin, Ethereum and Ripple.

Youbit said investors could withdraw about 75 per cent of their digital coin, and that the remainder would be paid once the company completes the bankruptcy process.

The exchange had no information on the perpetrator of the attack. The price of [bitcoin](#) dropped about 10 per cent in early morning trading in Asia on Wednesday to \$15,800, before rebounding to \$17,000 in late afternoon, according to Reuters. It hit a high of \$19,666 earlier this month, up from about \$1,000 at the start of the year.

The hack comes as [investors in South Korea](#), including students, flock to bitcoin in such big numbers that some buyers have recently been paying premiums of more than 20 per cent for the cryptocurrency, compared with international rates.

However, the latest attack puts the spotlight on security concerns, as rising valuations render cryptocurrency exchanges enticing targets for hackers.

In the US, regulators halted trading in [Crypto Company](#) as a result of a rise in its share price, which briefly gave it a market capitalisation of \$12.6bn. The Securities and Exchange Commission said on Tuesday that it had concerns about the possibility of market manipulation.

“Many expect more cyber attacks in the crypto space in the foreseeable future”, said Henri Arslanian, a fintech specialist at PwC.

“The pressure on crypto exchanges to continuously improve their security features may come from their retail and institutional clients who will expect the same level of security that they do from their traditional banks and brokers.”

Other high-profile attacks have occurred in the past few years. Tokyo-based Mt Gox, once the largest bitcoin exchange globally, [filed for bankruptcy](#) in 2014 when nearly 850,000 bitcoins — worth about \$450m at the time — were lost.

Hong Kong-based [Bitfinex was hacked](#) in August 2016, leaving investors nursing losses in the region of \$70m.

Lee Nak-yeon, prime minister of South Korea, warned last month that young people were making risky bets on the asset to make a quick profit, and that digital currencies were used for illegal activities, such as drug dealing.

To rein in the nascent sector, South Korea is considering [taxing capital gains](#) from cryptocurrency trading and banned initial coin offerings in September. ICOs allow start-ups to raise funds by selling digital tokens, or coins, to investors, bypassing venture capital and other mainstream sources of funding for fledgling firms.

In the same month, China also declared ICOs illegal and ordered a halt to fundraising using digital coins.

On Tuesday the Monetary Authority of Singapore issued an advisory on investing in cryptocurrencies, warning people to act with “extreme caution” and to “understand the significant risks”.

Additional reporting by Nick Megaw in London

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